



EPPING FOREST DISTRICT COUNCIL

ANNUAL AUDIT LETTER

Audit for the year ended 31 March 2016



EXECUTIVE SUMMARY

Purpose of the letter

This Annual Audit Letter summarises the key issues arising from the work that we have carried out in respect of the financial year ended 2015/16. It is addressed to the Council but is also intended to communicate the key findings we have identified to key external stakeholders and members of the public. It will be published on the website of Public Sector Audit Appointments Limited.

Responsibilities of auditors and the Council

It is the responsibility of the Council to ensure that proper arrangements are in place for the conduct of its business and that public money is safeguarded and properly accounted for.

Our responsibility is to plan and carry out an audit that meets the requirements of the National Audit Office's Code of Audit Practice (the Code), and to review and report on:

- the Council's financial statements
- whether the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

We are also required to report where we have exercised our statutory powers under the Local Audit and Accountability Act 2014 in any matter and our grant claims and returns certification work.

We recognise the value of your co-operation and support and would like to take this opportunity to express our appreciation for the assistance and co-operation provided during the audit.

BDO LLP
26 October 2016

Audit conclusions

FINANCIAL STATEMENTS

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

We reported our detailed findings to the Audit and Governance Committee on 19 September 2016.

The risks that had the greatest effect on our audit strategy and the associated findings are included on pages 3 to 5 of this report.

USE OF RESOURCES

We issued an unqualified conclusion on the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

EXERCISE OF STATUTORY POWERS

We have not exercised our statutory powers and have no matters to report.

GRANT CLAIMS AND RETURNS CERTIFICATION

Our review of 2015/16 grant claims and returns is in progress and the results will be reported upon completion of this work.

FINANCIAL STATEMENTS

OPINION

We issued an unqualified true and fair opinion on the financial statements on 30 September 2016.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error.

This includes an assessment of whether the accounting policies are appropriate to the Council's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates, and the overall presentation of the financial statements.

Our assessment of risks of material misstatement

Our audit was scoped by obtaining an understanding of the Council and its environment, including the system of internal control, and assessing the risks of material misstatement in the financial statements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

VALUATION OF LAND AND BUILDINGS	RESPONSE	FINDINGS
<p>Land and buildings (including investment properties) were revalued during the year. Such valuations are based on assumptions that are uncertain by nature. There is a risk of misstatement if inappropriate or inaccurate assumptions are used in the calculation of asset values.</p> <p>We identified a significant increase in the value of land and buildings recognised in the Council's financial statements. We confirmed that this was primarily due to the revaluation undertaken during the year.</p> <p>The extent of these increases was substantially higher than our expectations (which were based on the increases in property prices suggested by published indices). We therefore considered that the valuation of property, plant and equipment (including investment properties) presented a significant risk of misstatement in the Council's accounts.</p>	<p>We responded to this risk by reviewing the significant assumptions used by the external valuers engaged by management for accuracy and reasonableness.</p> <p>We confirmed that the basis of valuation for assets valued in year was appropriate based on their usage and that the movement in values were explained by wider market factors.</p> <p>We considered the independence, objectivity and competence of the external valuers engaged by management.</p>	<p>Our review of the valuation of council dwellings, other land and buildings and investment properties confirmed that they agreed to the respective valuation reports prepared by the external valuers.</p> <p>We reviewed the assumptions used in the valuations and concluded that they were not unreasonable.</p> <p>For council dwelling valuations, we reviewed property price data and comparable sales data on which the valuations were based and concluded that the two were consistent.</p> <p>We discussed the valuation of investment properties with the external valuer to confirm the nature of the information taken into account when completing the valuation. We were satisfied that the details of the Council's investment property portfolio provided to the valuer were accurate and complete.</p> <p>We assessed the competence, independence and objectivity of the valuers involved in both valuations and have not identified any issues.</p> <p>We have confirmed that the valuations are accurately reflected in the financial statements.</p>

FINANCIAL STATEMENTS

Continued

WRITE OFF OF NON CURRENT ASSETS	RESPONSE	FINDINGS
<p>During the year, the Council reviewed the assets classified within Infrastructure, Community and Assets under Construction. Officers concluded that some of the assets were either transport related (and therefore belonged to the County Council) or were related to a former waste disposal site which is now a park and no longer formed part of the associated asset. In the draft financial statements presented for audit, these assets (which had a value of £8.4m) were written out of the financial statements by restating 2014/15 values, including the recognition of an exceptional item in the Comprehensive Income and Expenditure Statement.</p>	<p>We responded to this risk by reviewing the accounting treatment applied in the draft financial statements to ensure that it was consistent with the requirements of the Code and applicable financial reporting standards.</p>	<p>We identified that the write-off had been incorrectly accounted for. Although it was correct to treat the write-off as a prior period adjustment, this should have been accounted for by restating the opening balances for the 2014/15 financial year (so recognising the correction related to <i>before</i> 2014/15) and not by only restating the 2014/15 Comprehensive Income and Expenditure Account (which would have shown the change occurring <i>during</i> 2014/15).</p> <p>Management amended the financial statements to correctly reflect the write-off of assets which are not owned by the Council. In accordance with the Code and applicable financial reporting standards, a third balance sheet has been prepared showing restated opening balances for the 2014/15 financial year.</p>

FINANCIAL STATEMENTS

Continued

PENSION LIABILITY ASSUMPTIONS	RESPONSE	FINDINGS
<p>The net pension liability comprises the Council's share of the market value of assets held in the Essex County Council Pension Fund and the estimated future liability to pay pensions.</p> <p>An actuarial estimate of the pension fund liability is calculated by an independent firm of actuaries with specialist knowledge and experience. The estimate is based on the most up to date membership data held by the pension fund and has regard to local factors such as mortality rates and expected pay rises along with other assumptions around inflation when calculating the liability.</p> <p>There is a risk the valuation is not based on accurate membership data or uses inappropriate assumptions to value the liability.</p>	<p>We responded to this risk by agreeing the pension liability recognised in the Council's financial statements to the information provided by the actuary.</p> <p>We reviewed the assumptions used by the actuary for reasonableness.</p>	<p>We are satisfied that the information used by the actuary regarding membership data was consistent with the Council's records.</p> <p>The key changes to the financial assumptions related to:</p> <ul style="list-style-type: none"> • an increase in the pension increase rate from 2.20% to 2.30% • an increase in the salary increase rate from 4.00% to 4.10% • an increase in the discount rate from 3.20% to 3.50% (to place a current value on the future liabilities through the use of a market yield of corporate bonds). <p>These changes resulted in a decrease in the present value of the scheme liabilities at 31 March 2016. We compared the assumptions used by the actuary to calculate the present value of future pension liabilities with the expected ranges provided by an independent consulting actuary. We are satisfied that the assumptions used are not unreasonable or outside of the expected ranges.</p>
EXISTENCE OF ASSETS	RESPONSE	FINDINGS
<p>For a sample of property, plant and equipment recorded on the Council's asset register, we obtained evidence to confirm that the asset exists.</p> <p>Included in our sample were two items relating to works in respect of off street parking areas associated with council dwellings. Due to the age of these assets, officers were unable to confirm the location of these works and we were therefore been unable to confirm that the associated assets exist.</p>	<p>Further work was undertaken to quantify the impact of this issue by examining records relating to assets of the same type.</p>	<p>The further work established that the net book value of affected assets included in the Council's asset register is £330,000. We were therefore satisfied that the impact on the Council's financial statements was not material.</p>

FINANCIAL STATEMENTS

Continued

Our application of materiality

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements.

We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonably knowledgeable users that are taken on the basis of the financial statements.

Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

The materiality for the financial statements as a whole was set at £1.900 million. This was determined with reference to a benchmark of gross expenditure (of which it represents 2 per cent) which we consider to be one of the principal considerations for the Council in assessing the financial performance.

We agreed with the Audit and Governance Committee that we would report all individual audit differences in excess of £76,000.

Audit differences

Management corrected all misstatements relating to the current year identified during the course of the audit.

Other matters we report on

Annual governance statement

We are satisfied that the Annual Governance Statement is not misleading or inconsistent with other information we were aware of from our audit.

Narrative reporting

Local authorities are required to include a narrative report in the Statement of Accounts to offer interested parties an effective guide to the most significant matters reported in the accounts. The narrative report should be fair, balanced and understandable for the users of the financial statements.

We are satisfied that the information given in the narrative report for the financial year for which the financial statements are prepared is consistent with the financial statements.

FINANCIAL STATEMENTS

Continued

Internal controls

We did not find any significant deficiencies in internal controls during the course of our audit. A number of other areas for improvement were identified which we have discussed with management.

Whole of Government Accounts

Auditors are required to review Whole of Government Account (WGA) information prepared by component bodies that are over the prescribed threshold of £350 million in any of: assets (excluding certain non current assets); liabilities (excluding pension liabilities); income or expenditure.

The Council falls below the threshold for review and there is no requirement for further work other than to submit the section on the WGA Assurance Statement to the WGA audit team with the total values for assets, liabilities, income and expenditure.



USE OF RESOURCES

CONCLUSION

We issued an unqualified conclusion on the arrangements for securing economy, efficiency and effectiveness in its use of resources on 30 September 2016.

Scope of the audit of use of resources

We are required to be satisfied that proper arrangements have been made to secure economy, efficiency and effectiveness in the use of resources based on the following reporting criterion:

- In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

As part of reaching our overall conclusion we consider the following sub criteria in our work: informed decision making, sustainable resource deployment, and working with partners and other third parties.

Our assessment of significant risks

Our audit was scoped by our knowledge brought forward from previous audits, relevant findings from work undertaken in support of the opinion on financial statements, reports from the Council including internal audit, information disclosed or available to support the governance statement and annual report, and information available from the risk registers and supporting arrangements.

We set out below the risks that had the greatest effect on our audit strategy, the allocation of resources in the audit, and directing of the efforts of the audit team.

SUSTAINABLE FINANCES	RESPONSE	FINDINGS
<p>The spending review announced by the Government in November 2015 confirmed that central government funding for local government will continue to fall following significant reductions implemented during the previous Parliament. Existing funding mechanisms, particularly in relation to local taxation, are also likely to be restructured in the medium-term.</p> <p>The likely changes to local government funding, coupled with the need to deliver savings in the medium term, means that the Council will continue to face financial risks. These are, in part, mitigated by the levels of reserves currently held by the Council, which are forecast to remain significantly above the target of 25% of the Council's net budget requirement for the duration of the medium term financial strategy (MTFS).</p>	<p>We have reviewed the Council's MTFS to assess the reasonableness of assumptions used and how the Council is addressing financial pressures.</p> <p>We have considered the progress made by the Council regarding the exploitation of the commercial opportunities it has identified. We have also reviewed the progress it has made with its transformation programme, including any potential efficiency savings arising from the programme.</p>	<p>The most recent version of the Councils MTFS shows that the predicted revenue balance at the end of the period covered by the strategy is expected to be £6.857m, which represents 55% of the Council's net budget requirement for 2019/20. This is significantly above the minimum 25% approved by members.</p> <p>Capital funds are expected to reduce from £3.742m at the start of the MTFS period to nil during 2018/19.</p> <p>Management have recognised that ongoing reductions in central government funding will present significant financial challenges in the medium term. The introduction of the Transformation Programme aims to address this, as well as the need to embrace new technology and meet the changing needs of both internal and external stakeholders.</p>

USE OF RESOURCES

Continued

SUSTAINABLE FINANCES (continued)	RESPONSE	FINDINGS
		<p>A Head of Transformation was appointed in November 2015 to oversee the programme’s four work streams:</p> <ul style="list-style-type: none"> • Customer experience • Business culture • Resources, accommodation and technology • Major projects <p>The customer experience review commenced during the year. This project continues to progress alongside other aspects of the transformation programme, notably a review of the Council’s current office accommodation.</p> <p>The development of the Langston Road Shopping Centre is expected to provide the Council with a significant source of income once operational. Delays in the tendering process for the construction of the centre have resulted in the opening being postponed until Easter 2017 (the centre was originally intended to open in time for Christmas 2016).</p> <p>As the Transformation Programme is in its early stages, financial benefits (both in terms of savings achieved and additional revenue generated) are yet to be realised. Those elements of the programme which commenced during 2015/16 are progressing well and are on track to deliver the changes envisioned by officers.</p>

EXERCISE OF STATUTORY POWERS

REPORT BY EXCEPTION

We have not exercised our statutory powers and have no matters to report.

Use of statutory powers

We have not exercised our statutory powers and have no matters to report.

Audit certificate

We issued the audit certificate to close the audit for the year ended 31 March 2016 on 30 September 2016.

GRANT CLAIMS AND CERTIFICATION

CERTIFICATION WORK

Our review of grant claims and returns for 2015/16 is in progress and the results will be reported upon completion of this work.

Housing benefit subsidy claim

Public Sector Audit Appointments Ltd has a statutory duty to make arrangements for certification by the appointed auditor of the annual housing benefit subsidy claim.

Our audit of the 2014/15 housing benefits subsidy claim found two errors in the initial samples tested. In both instances, the Council's quality control procedures had highlighted and corrected these errors after the subsidy claim was produced but before we completed our testing. Therefore, no additional testing was performed in respect of these errors.

We also undertook testing to establish whether errors identified in the prior year had occurred again during 2014/15. This identified the following:

- One case where ineligible meal costs had been incorrectly included in the calculation of eligible rent (error of £57).
- Two cases where benefit had been overpaid because private pension income had not been correctly calculated (error of £182).

Both of the above were reported to the DWP in our qualification letter.

Our work on the 2015/16 housing benefits subsidy claim is currently in progress and will be completed ahead of the submission deadline of 30 November 2016.

Other claims and returns

A number of grant claims and returns that were previously included within the scope of the audit have since been removed, but Departments may still seek external assurance over the accuracy of the claim or return.

These assurance reviews are undertaken outside of our appointment by the Audit Commission or Public Sector Audit Appointments Ltd, and are covered by tripartite agreements between the Council, sponsoring Department and the auditor.

The Council has requested that we undertake a 'reasonable assurance' review, based on the instructions and guidance provided by the Departments, for the following return for 2015/16:

- Pooled housing capital receipts (deadline 30 November 2016)

Our work on this return is currently in progress.

APPENDIX

Reports issues

We have issued the following reports since our previous annual audit letter.

REPORT	DATE
Grant claims and certification work 2014/15	26 February 2016
Audit Plan	16 March 2016
Final audit report	7 September 2016
Annual Audit Letter	26 October 2016

The matters raised in our report prepared in connection with the audit are those we believe should be brought to the attention of the organisation. They do not purport to be a complete record of all matters arising.. No responsibility to any third party is accepted.

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